

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Delta Solid Waste Management Authority</b>	County <b>Delta</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>4/1/05</b>	Date Accountant Report Submitted to State: <b>5/16/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:		Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		✓		
Reports on individual federal financial assistance programs (program audits).				✓
Single Audit Reports (ASLGU).				✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Co., PLC</b>			
Street Address <b>901 Ludington Street</b>	City <b>Escanaba</b>	State <b>MI</b>	ZIP <b>49829</b>
Accountant Signature <i>Anderson, Tackman &amp; Company P.C.</i>		Date <b>5/16/05</b>	

DELTA SOLID WASTE MANAGEMENT AUTHORITY

FINANCIAL STATEMENTS

December 31, 2004

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report . . . . .	1
Management's Discussion and Analysis . . . . .	2
Statement of Net Assets. . . . .	7
Statement of Revenues, Expenses, and Changes in Net Assets . . . . .	9
Statement of Cash Flows. . . . .	11
Notes to Financial Statements. . . . .	13



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
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Erkki M. Peippo, CPA, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Delta Solid Waste Management Authority

We have audited the accompanying financial statements of the Delta Solid Waste Management Authority as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delta Solid Waste Management Authority, as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

April 1, 2005

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Our discussion and analysis of the Delta Solid Waste Management Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the financial statements, which begin on page 7.

### FINANCIAL HIGHLIGHTS

**Business-Type Activities** – The Delta Solid Waste Management Authority was incorporated in 1984 for the purpose of providing landfill services to the citizens and local units of government in Delta County. In 1993 the Authority started recycling operations and in 1997 began the Household Hazardous Waste collection program. In the current year the Authority implemented GASB Statement 34, which requires the addition of this analysis as required supplemental information as well as changing the presentation of the equity section of the statement of net assets from a retained earnings presentation to a net asset presentation. As part of this change, the amounts previously reported as contributed capital are now reported as part of net assets.

- **Net Assets** – The net assets of the Authority increased \$862,135 during the fiscal year due to operating profits of \$1,066,457 less non-operating revenues and expenses of \$204,322.
- **Operating Income** - The Authority generated \$862,135 in net income for the fiscal year compared to an increase of \$856,515 for 2003.
  - The Authority had operating revenues of \$2,348,187, composed of charges to local units of government (27%), private contractors (26%), corporate accounts (30%), cash sales (10%), recycling income (7%) and miscellaneous charges (less than 1%). All revenue types for fiscal year 2004 were materially consistent with fiscal year 2003, with the exception of corporate account sales, which increased by 120%. This was due in large part to one contaminated soil project done by a contractor for the State of Michigan at the old Delta Chemical site.
  - Operating expenses amounted to \$1,281,730 during 2004, representing a 33% increase from the 2003 level of \$962,819. The most significant variances comprising this increase are as follows:
    - Recognition of landfill closure and post-closure care costs recognized in the current year of \$182,800, compared to change in accounting estimate in the prior year of \$91,400 which showed as a decrease to expenses in 2003 because of a vertical expansion of the open landfill cells (see page 4 expense Charts);
    - Depreciation expense increase by \$34,818 in the current year;
    - Leachate treatment expenses in the current year increased \$30,474. Leachate expense is a function of rainfall and 2003 was a “dry” year and 2004 had more “typical” moisture levels;
    - Remaining expense categories were fairly consistent with the prior year.
- **Cash Flow** - Converting the operating income to a cash basis requires adjustments for non-cash transactions (principally depreciation and closure and post-closure care costs) which reveals that current year operations produced an increase in cash of \$887,278.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements that present the financial position and results of operations for Delta Solid Waste Management Authority on a stand-alone basis.

### THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

One of the most important questions asked about the Authority's finances is, "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information in a way that helps answer this question. These two statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. The Authority's net assets – the difference between assets and liabilities – are one way to measure the financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the condition of the Authority's facilities and equipment, need to be considered to assess the overall health of the Authority.

### FINANCIAL ADMINISTRATION

The Authority's net assets increased by \$862,135.

	<u>2004</u>	<u>2003</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 2,905,648	\$ 1,661,424	\$ 1,244,224	74.9%
Capital assets	<u>3,266,492</u>	<u>3,695,624</u>	<u>(429,132)</u>	<u>-11.6%</u>
Total assets	<u>6,172,140</u>	<u>5,357,048</u>	<u>815,092</u>	<u>15.2%</u>
Current liabilities:				
Other liabilities	3,023,794	3,070,836	(47,042)	-1.5%
Current portion of long-term debt	185,000	175,000	10,000	5.7%
Long-term debt	<u>3,115,000</u>	<u>3,300,000</u>	<u>(185,000)</u>	<u>-5.6%</u>
Total liabilities	<u>6,323,794</u>	<u>6,545,836</u>	<u>(222,042)</u>	<u>-3.4%</u>
Net assets:				
Invested in capital assets, net of related debt	(33,508)	220,623	(254,131)	-115.2%
Restricted	432,914	388,617	44,297	11.4%
Unrestricted	<u>(551,060)</u>	<u>(1,623,029)</u>	<u>1,071,969</u>	<u>-66.0%</u>
Total net assets	<u>\$ (151,654)</u>	<u>\$ (1,013,789)</u>	<u>\$ 862,135</u>	<u>-85.0%</u>

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

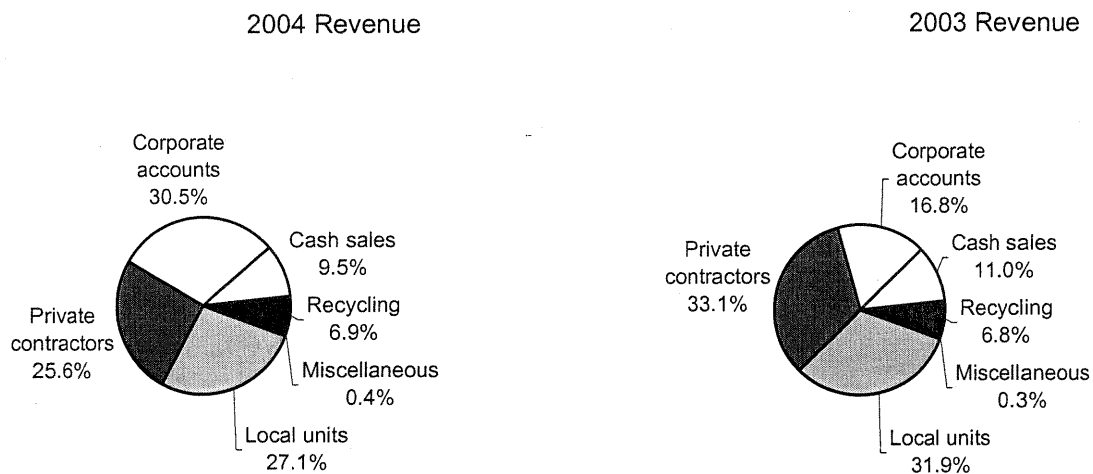
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The Authority's net assets increased by \$862,135 during the year due to a combination of two primary factors as follows:

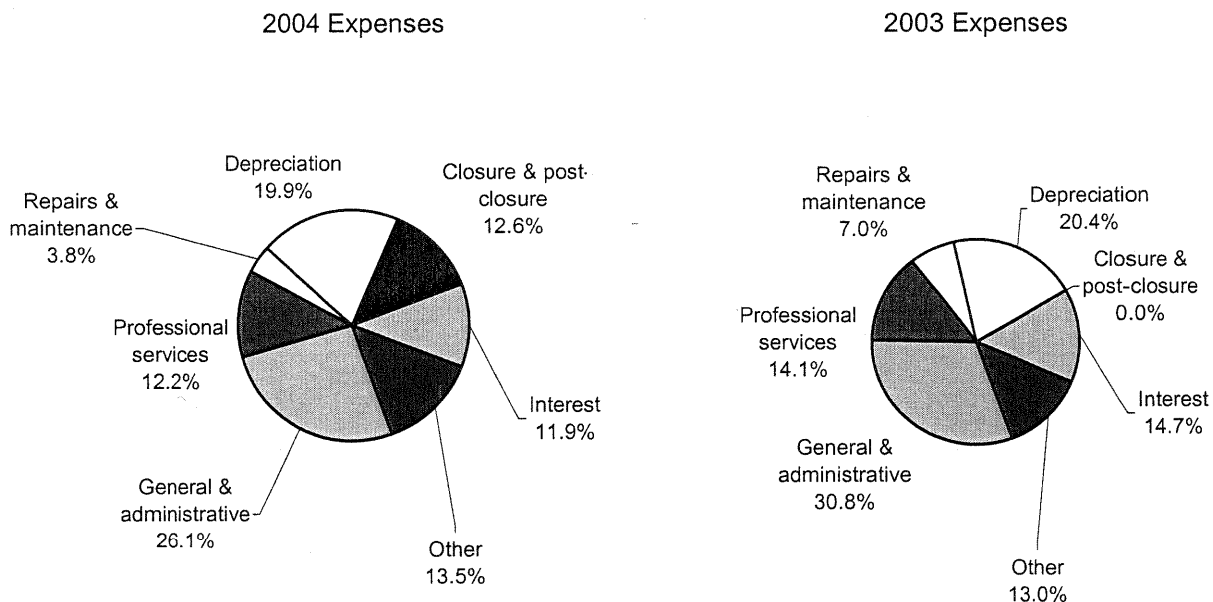
- The Authority paid down \$175,000 of long-term debt, bonds are our only debt.
- The working capital increased \$1.2 million due primarily to an increase in cash generated from operations.

### Business-Type Activities – Categorical Analysis

A comparison of revenue for 2004 and 2003 is presented in the pie chart below.



The Authority's expenses are consistent with the prior year as detailed below.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Business-Type Activities – Functional Analysis

In the current year the Authority had net income of \$862,135. Even though the Authority experienced an increase in operating expenses of \$318,911 in 2004, we also experienced a 120% increase in corporate account sales, which was primarily due to a contract with a private company for the disposal of contaminated soil. The Authority is required to recognize closure and post-closure costs associated with the closing and future monitoring of the landfill. Each year as the capacity of the landfill is reduced, a proportionate amount of the estimated closure and post-closure costs must be recognized in the financial statements of the Authority as an expense. 2004 expenses represent a more typical and consistent year of activity than 2003. In 2003 there was a vertical expansion of the landfill which changed the capacity and related calculations for closure and post-closure liabilities, which created a change in accounting estimate adjustment to reduce 2003 expenses by \$91,400. In 2004, closure and post-closure costs of \$182,800 were recognized as an expense in the financial statements.

Closure and post-closure costs have been estimated to be \$1,000,000 and \$3,570,000, respectively. These costs are based on engineering estimates and could change based upon changes in environmental laws, technology and inflation. Of the total \$4,570,000 closure and post-closure care costs, \$2,970,500 or 65% of the total costs have been recognized as of December 31, 2004.

### CAPITAL ASSET AND DEBT ADMINISTRATION

- Capital Assets – At December 31, 2004, the Authority has \$3,266,492 invested in a broad range of capital assets including buildings, equipment, and landfill cell construction. The following table presents the changes in the Authority's capital assets compared to last year:

	Balance 01/01/04	Additions	Deductions	Balance 12/31/04
Business-type Activities:				
Land	\$ 12,500	\$ -	\$ -	\$ 12,500
Buildings & improvements	1,265,976	-	(369,084)	896,892
Landfill cells/improvement	5,928,474	50,439	(43,381)	5,935,532
Machinery & equipment	1,358,754	27,294	(122,102)	1,263,946
Leasehold improvements	65,180	-	-	65,180
Accumulated depreciation	<u>(4,935,260)</u>	<u>(287,497)</u>	<u>315,199</u>	<u>(4,907,558)</u>
	<u>\$ 3,683,124</u>	<u>\$ (209,764)</u>	<u>\$ (219,368)</u>	<u>\$ 3,266,492</u>

In Landfill cells / improvements above, the \$50,439 addition was for a temporary cap to shed water from the cell thereby reducing the amount of leachate to treat to ultimately reduce yearly expenses. The Machinery & Equipment addition was for a new skid steer loader used in the recycling processes.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

- Debt Administration – At year-end, the Authority had \$3,300,000 in long-term debt related to landfill cell construction and \$2,970,500 in closure and post-closure care costs. The following table presents the changes in the enterprise's long-term debt compared to last year:

	Balance 01/01/04	Additions	Deletions	Balance 12/31/04
Bonds	\$ 3,475,000	\$ -	\$ (175,000)	\$ 3,300,000
Closure & post-closure costs	2,787,700	182,800	-	2,970,500
Total long-term debt	<u>\$ 6,262,700</u>	<u>\$ 182,800</u>	<u>\$ (175,000)</u>	<u>\$ 6,270,500</u>

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Authority anticipates another solid year financially as it has been the experience of the Authority in the past several years. While current economic conditions play a role in the financial performance of the Authority, the fact that we are the only operating landfill in the county allows us to control the financial future of the Authority by the fees that are charged. The fee structure of the Authority is reviewed periodically by the Authority Board and management as a tool to ensure the Authority is accumulating enough resources to satisfy the future closure and post-closure care cost of the landfill after it is done accepting waste. Plans for a future expansion of additional cells near the existing facility are being actively pursued as it is anticipated that the current landfill has a life expectancy until the year 2011. The Authority is planning on several capital expenditures in the coming year including a land purchase for future cells, a roll-off truck and relining the recycling baler.

The budget that the Authority uses is a guideline. It is based upon the three previous years and facts available at the time. Due to the nature of this industry large projects may come and drastically alter revenue (such as a contaminated soil abatement) and expenses (such as rainfall effecting leachate expense). This forces the budget process to be aggressive with expenses and conservative with revenue. Last years budget saw a 8.87% decrease in expenses and 33.83% increase in revenue over projected budget.

### CONTACTING THE AUTHORITY'S MANAGEMENT

The financial report is designed to provide citizens, taxpayers, customers, regulatory agencies as well as creditors with a general overview of the Delta Solid Waste Management Authority financial activities. If you have any questions about this report or need additional financial information, contact the Authority's manager at P.O. Box 198, Escanaba, MI, 49829, or (906) 786-9056.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

STATEMENT OF NET ASSETS

December 31, 2004

ASSETS

Current Assets:

Cash	\$ 899,048
Certificate of deposits	974,213
Accounts receivable	<u>516,418</u>

TOTAL CURRENT ASSETS	<u>2,389,679</u>
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Non-Current Assets:

Restricted Assets - Cash:	
Certificate of deposit	265,928
Perpetual care fund - DEQ	166,986
Capital Assets (Net of accumulated depreciation)	<u>3,266,492</u>

TOTAL NON-CURRENT ASSETS	<u>3,699,406</u>
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Other Assets:

Bond issuance and organiza-	
tion costs	173,814
Accumulated amortization	(117,224)
Bond discount	42,750
Accumulated amortization	<u>(16,285)</u>

NET OTHER ASSETS	<u>83,055</u>
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TOTAL ASSETS	<u>\$6,172,140</u>
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See accompanying notes to financial statements.

LIABILITIES AND FUND EQUITY

Current Liabilities:

Accrued bond interest payable	\$ 27,244
Current portion of bonds payable	185,000
Current portion of accrued sick and vacation	4,930
Other current liabilities	<u>6,328</u>

TOTAL CURRENT LIABILITIES 223,502

Long-Term Liabilities (Net of  
Current Portion):

Bonds payable	3,115,000
Estimated liability for landfill closure and post-closure care costs	2,970,500
Accrued sick and vacation	<u>14,792</u>

NET LONG-TERM LIABILITIES 6,100,292

TOTAL LIABILITIES 6,323,794

Net Assets:

Invested in capital assets, net of related debt	(33,508)
Restricted For:	
Closure and post closure care	432,914
Unrestricted	<u>(551,060)</u>

TOTAL NET ASSETS (151,654)

TOTAL LIABILITIES AND NET ASSETS \$6,172,140

See accompanying notes to financial statements.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS**

For the year ended December 31, 2004

Operating Revenues	<u>\$2,348,187</u>
Operating Expenses:	
General and Administrative:	
Salaries and wages	\$ 230,603
Employee benefits	51,514
Payroll taxes	3,499
Pension expense	20,192
Workers compensation	11,748
Bank charges	4,541
Insurance	11,907
Printing and publishing	1,557
Postage	545
Telephone	2,975
Utilities	24,507
Travel and entertainment	136
Licenses and permits	7,834
Office supplies	3,296
Training	1,685
Shop supplies	<u>3,502</u>
TOTAL GENERAL AND ADMINISTRATIVE	<u>380,041</u>
Professional Services:	
Accounting and auditing	11,280
Legal	5,278
Engineering services	25,892
Other professional services	5,021
Management fees	<u>130,334</u>
TOTAL PROFESSIONAL SERVICES	<u>177,805</u>
Repairs and Maintenance:	
Building	7,642
Machinery	38,412
Office equipment	2,174
Small equipment	1,592
Grounds maintenance	<u>5,731</u>
TOTAL REPAIRS AND MAINTENANCE	<u>55,551</u>
Depreciation	<u>286,085</u>
Amortization	<u>3,127</u>
Landfill closure and post-closure care costs	<u>182,800</u>

See accompanying notes to financial statements.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS

For the year ended December 31, 2004

Other:	
Hazardous material program	\$ 19,280
Groundwater testing	43,591
Fuel	28,806
Leachate treatment	83,985
Tire recycling	4,400
Escanaba cleanup	5,829
Miscellaneous	<u>10,430</u>
TOTAL OTHER	<u>196,321</u>
TOTAL OPERATING EXPENSES	<u>1,281,730</u>
OPERATING INCOME (LOSS)	<u>1,066,457</u>
Non-operating Revenues and Expenses:	
Interest income	16,768
Interest expense	(172,779)
Net loss on disposal of capital assets	<u>(48,311)</u>
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>(204,322)</u>
NET INCOME (LOSS)	862,135
Retained earnings (deficit), beginning of year	<u>(1,013,789)</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ (151,654)</u>

See accompanying notes to financial statements.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended December 31, 2004

Cash flows from operating activities:	
Cash received from charges for services	\$1,984,544
Cash paid for salaries and wages	(305,170)
Cash paid for general expenses	<u>(557,969)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,121,405</u>
Cash flows from capital and related financing activities:	
Purchase of fixed assets	(74,164)
Principal payments	(175,000)
Interest paid	(174,201)
Proceeds from sale of capital assets	<u>172,470</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(250,895)</u>
Cash flows from investing activities:	
Interest received	<u>16,768</u>
NET INCREASE (DECREASE) IN CASH	887,278
Cash beginning of year	<u>1,418,897</u>
CASH END OF YEAR	<u>\$2,306,175</u>

See accompanying notes to financial statements.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended December 31, 2004

Reconciliation of operating loss  
to net cash provided (used) by  
operating activities:

Operating income (loss)	<u>\$1,066,457</u>
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Adjustments to reconcile operating  
income (loss) to net cash provided  
(used) by operating activities:

Depreciation and amortization	289,212
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Landfill closure and post-closure costs	182,800
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Changes in assets and liabilities:

(Increase) decrease in accounts receivable	(363,643)
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Increase (decrease) in accounts payable	(55,734)
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Increase (decrease) in other current liabilities	1,675
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Increase (decrease) in accrued sick and vacation	<u>638</u>
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TOTAL ADJUSTMENTS	<u>54,948</u>
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NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$1,121,405</u>
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See accompanying notes to financial statements.

DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and local units of government within the county in order to provide a new landfill. Both Act 233 and its Articles of Incorporation authorize the Authority to issue bonds to finance and operate such a landfill. The Authority is similarly authorized to execute a long-term lease of the 80-acre site of the landfill, which is currently owned by the City of Escanaba and leased to the county for use as the landfill. During 1992 the Authority began operating a recycling center pursuant to Act 328, Public Acts of Michigan. A Clean Michigan Community Grant Contract funded the start up costs of the recycling center. The Authority as described herein has no taxing power.

The Authority is governed by a seven-person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. The three members from the cities are selected by and from a body composed of two representatives from each city; and the member of the Delta County Board of Commissioners is chosen by County Commissioners after review of recommendation by the townships, villages and city representatives.

Basis of Accounting - Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied. The Authority's policies conform to generally accepted accounting principles as applicable to governmental proprietary funds and as such the funds are accounted for using the accrual basis method of accounting. Under the accrual basis method of accounting revenue is recognized when earned, and expenses when incurred. The Authority applies all GASB pronouncements and FASB Statement and Interpretations, APB Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Cash - For reporting purposes in the Statement of Cash Flows, cash and cash equivalents include cash on hand, demand deposits and short-term investments with maturities of three months or less. This includes restricted cash.

Restricted Assets - Restricted cash includes a certificate of deposit with a balance of \$265,928 reserved for future closure and post-closure care costs, as well as a perpetual care fund with a balance of \$166,986, which the Michigan Department of Environmental Quality mandates as part of its licensure and financial assurance requirements.

Receivables - Receivables are reported at their gross value and are reduced by the direct write-off method when amounts are deemed to be uncollectible.

Fixed Assets - Fixed assets are recorded at cost. Depreciation is charged as an expense against income from operations. Depreciation is computed



DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

over the estimated useful lives of the assets on the straight-line method. Accumulated depreciation is adjusted for landfill cells based on the capacity used/available at year-end. The following are the estimated useful lives of the assets:

Buildings	10-19 years
Landfill cells/land improvements	5-20 years
Furniture	10 years
Vehicles	7 years
Machinery and equipment	7-10 years
Leasehold improvements	19 years

Bond Issuance Costs - Bond issuance costs are capitalized and amortized over twenty years.

Bond Discount - Discount on bonds issued is amortized to interest expense using the effective interest method.

Organization Costs - Organization costs are capitalized and amortized over nine years.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - DEFICIT FUND EQUITY**

The Authority had a deficit fund equity at December 31, 2004. Future closure and post-closure care costs which have been recognized as expenses have contributed to this deficit. The Authority has revised its fee rate structure to finance these costs and if necessary Delta County will make payments to the Authority sufficient to pay principal and interest on the 1997 General Obligation bonds, pursuant to a contractual agreement between the Authority and the County.

**NOTE C - CASH DEPOSITS**

Cash deposits are recorded at cost. All cash deposits are held in federally insured banks located in the State of Michigan. During the past year, cash balances deposited have exceeded the maximum federally insured deposit levels. At December 31, 2004 the carrying amount of the Authority's cash deposits was \$2,305,857 and the bank balance was \$2,309,401. Of the bank balance, \$400,000 was covered by federal deposit insurance and \$1,909,401 was uninsured and uncollateralized.

**DELTA SOLID WASTE MANAGEMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

**NOTE D - PROPERTY AND EQUIPMENT**

The following is a summary of changes in property and equipment:

	Balance <u>01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/04</u>
Capital Assets Not Subject to Depreciation:				
Land	\$ 12,500	\$ -	\$ -	\$ 12,500
Capital Assets Subject to Depreciation:				
Buildings & improvements	1,265,976	-	(369,084)	896,892
Landfill cells/land improvements	5,928,474	50,439	(43,381)	5,935,532
Furniture	2,803	-	-	2,803
Vehicles	1,134	-	-	1,134
Machinery & equipment	1,354,817	27,294	(122,102)	1,260,009
Leasehold improvements	<u>65,180</u>	<u>-</u>	<u>-</u>	<u>65,180</u>
	8,630,884	77,733	(534,567)	8,174,050
Less accumulated depreciation	<u>(4,935,260)</u>	<u>(287,497)</u>	<u>315,199</u>	<u>(4,907,558)</u>
NET PROPERTY & EQUIPMENT	<u>\$3,695,624</u>	<u>\$ (209,764)</u>	<u>\$ (219,368)</u>	<u>\$3,266,492</u>

In 1997, the Authority entered into a capital lease for the purchase of a piece of equipment for a cost of \$355,681. This lease was capitalized under machinery and equipment and had accumulated depreciation of \$355,681 as of December 31, 2004.

**NOTE E - RETIREMENT PLAN**

In accordance with Section 401 (A) of the Internal Revenue Code, the Authority makes available to its employees a qualified defined contribution retirement plan in which DSWMA contributes 8% of the employee's annual base salary rate to the plan, and makes a matching contribution of 3% to an employee's account for each 3% of employee contribution. This plan is offered to all regular full-time employees, regular part-time employees, and part time employees who work a minimum of 1,000 hours per year. Employee salary deferrals and DSWMA contributions are immediately 100% vested. Contribution requirements are established by and may be amended at the discretion of the Authority's Board of Directors. As of December 31, 2004, the Authority had five employees participating in the plan and made contributions totaling \$20,192 and employee contributions of \$15,750.

**NOTE F LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended December 31, 2004.

	1997 General Obligation Limited Tax Bonds	Estimated Liability for Landfill Closure and Post-Closure Care Costs	Total
Debt Outstanding 01/01/04	\$3,475,000	\$ 2,787,700	\$ 6,262,700
Additions	-	182,800	182,800
Reductions	<u>(175,000)</u>	<u>-</u>	<u>(175,000)</u>
Debt Outstanding 12/31/04	<u>\$3,300,000</u>	<u>\$ 2,970,500</u>	<u>\$ 6,270,500</u>

DELTA SOLID WASTE MANAGEMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

**NOTE F LONG-TERM DEBT (continued)**

The 1997 General Obligation Limited Tax bonds bear interest at rates ranging from 4.75 to 5.0%, with annual maturities ranging from \$165,000 to \$300,000 through November 1, 2017. The bonds are secured by payments to be made to the Authority by Delta County to pay principal and interest, if necessary, pursuant to a contractual agreement between the Authority and Delta County. Delta County is authorized under Public Act 233 to pledge its limited tax full faith and credit for payment of the bonds.

The following summarizes 1997 General Obligation Limited Tax Bond debt service requirements for principal and interest due within the next five years:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 185,000	\$ 163,461
2006	195,000	154,443
2007	205,000	144,936
2008	220,000	134,943
2009	230,000	124,217
2010-2014	1,365,000	436,355
2015-2017	900,000	90,000
TOTALS	<u>\$ 3,300,000</u>	<u>\$ 1,248,355</u>

**NOTE G - LETTERS OF CREDIT**

At December 31, 2004 the Authority had the following letters of credit with State Bank of Escanaba and Bay Bank:

<u>Date Issued</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Expiration</u>
01/02/97	\$190,000	9.5%	02/28/05
01/02/97	82,800	9.5%	02/28/05
05/12/97	152,000	9.5%	01/28/05
05/12/97	60,000	9.5%	05/12/05
08/28/98	250,000	9.5%	08/28/05
TOTAL	<u>\$734,800</u>		

There were no outstanding balances on these letters of credit at December 31, 2004. All the letters of credit were renewed with new expiration dates of January 28, 2005, February 28, 2005, May 12, 2005 and August 28, 2005 respectively. The letters of credit are secured by machinery and equipment and any unpledged cash on deposit of the Authority.

**NOTE H - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS**

State and federal laws require that the Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2004

**NOTE H - LANDFILL CLOSURE AND POST-CLOSURE COSTS (continued)**

to current operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on estimated future closure and post-closure care costs that will be incurred after the date the landfill no longer accepts waste. The recognition of the annual landfill closure and post-closure care costs is based on the amount of the landfill used during the year.

The estimated liability for landfill closure and post-closure care costs has a balance of \$2,970,500 as of December 31, 2004. This amount is based on 65% filled usage of the landfill for post-closure care costs, based upon the ratio of filled cells to total filled capacity, including the capacity of cell four constructed in 2002, and vertical expansion of cell three in 2004.

It is estimated that an additional \$1,599,500 will be recognized as closure and post-closure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (the year 2011), which includes closure costs of the reconstructed portion of the landfill. The estimated total current cost of the landfill closure and post-closure care (\$4,570,000) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2004. However, the actual costs of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Cash deposits of \$1,407,127 were available at December 31, 2004 to finance closure and post-closure care. Letters of credit amounting to \$674,800 were also available at December 31, 2004. Possible additional charges to future landfill users may also be used to finance closure and post-closure costs. As of December 31, 2004, the estimated remaining useful life of the landfill is seven years.

**NOTE I - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority carries commercial insurance for these risks of loss. At December 31, 2004, the Authority had no outstanding claims which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

**NOTE J - BEGINNING OF YEAR RETAINED EARNINGS (DEFICIT)**

The beginning of year retained earnings (deficit) was adjusted for the amount of contributed capital, net of amortization. These amounts were previously segregated from retained earnings.

**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, Principal

Kevin C. Pascoe, CPA  
Lindsay J. Behrend, CPA  
Christina A. Smigowski, CPA

**REPORT TO MANAGEMENT**

Board of Directors  
Delta Solid Waste Management Authority

We have audited the general purpose financial statements of the Delta Solid Waste Management Authority for the year ended December 31, 2004, and have issued our reports thereon dated April 1, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transaction, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Delta Solid Waste Management Authority. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

**Significant Accounting Policies**

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Delta Solid Waste Management Authority are described in Note A of the financial statements.

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Delta Solid Waste Management Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Management Judgements and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and expertise about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates. The most significant estimates affecting the Authority's financial statements is the landfill capacity available, depreciable lives of capital assets and the closure and post-closure care costs.

### Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgement, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

### Disagreement with Management

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In come cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Delta Solid Waste Management Authority or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accounts.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

This information is intended solely for the Authority's Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Andersey, Tackman & Company P.L.C.*  
Certified Public Accountants

April 1, 2005